

# New Hampshire Department of Revenue Administration

## Fiscal Note Quick Guide

16-2703

**SB 497-FN-A-LOCAL**, *relative to disposition of meals and rooms tax revenues to towns and cities.*

Senate Ways & Means Committee

The proposed bill would amend RSA 78-A:26 by directing the Department of Revenue Administration (DRA) to distribute a portion of Meals and Rooms (M&R) Tax collected to the towns and cities where collected in proportion to the total amount of taxes collected in the state.

The proposed legislation contemplates an additional disbursement of up to \$5,000,000 above the current \$5,000,000 cap provided for in RSA 78-A:26, II, to be distributed from any increase in the revenue received from the M&R Tax, to cities and towns in proportion to the amount of M&R revenue generated in that particular town. The creation of an additional disbursement of up to \$5,000,000 to cities and towns would decrease the amount of M&R tax revenue that would otherwise go into the state's General Fund, but increase revenues to cities and towns.

Under RSA 78-A:26, I, 40% of the net income collected through the M&R Tax is distributed to towns and cities based on proportionate population, with the remainder to the General Fund. Under RSA 78-A:26, II, the amount to be distributed to cities and towns shall be equal to the prior year's distribution plus an amount equal to 75% of any increase in the income received from the M&R Tax for the fiscal year ending on the preceding June 30<sup>th</sup>, not to exceed \$5,000,000. In practice, the legislature has historically suspended the provisions of RSA 78-A:26, I and either frozen the M&R distribution to cities and towns at prior year levels, or prior year levels plus the increase provisions provided for in RSA 78-A:26, II. As a result, in practice the formula for any given year will be either that described in RSA 78-A:25, I or RSA 78-A:26, II, but not both. The proposed amendment to the distribution formula is being made to RSA 78-A:25, I but builds upon the formula described in RSA 78-A:26, II. As a result, the DRA does not believe the proposed legislation can be administered as written. If the proposed additional distribution to cities and towns is intended to act in concert with the formula described in RSA 78-A:26, II, the DRA believes the proposed amendment should be to that section. Otherwise, if the legislature suspends the provisions of RSA 78-A:26, I, as it has historically done, the proposed legislation would have no effect on the distributions to cities and towns.

The proposed bill would also amend the DRA's confidentiality statute, RSA 21-J:14, to permit the DRA to disclose the total amount of revenue collected from the M&R Tax in each municipality.

This amendment would require a reporting form change by the DRA. Currently, an owner of multiple businesses in different cities and towns may file a consolidated M&R Tax return reporting the M&R collected from multiple businesses on an aggregated basis. This form would

need to be modified to require the identification of the city or town where the tax was generated. The DRA would also need to update internal processing systems in addition to developing new forms, with an indeterminable cost in excess of \$10,000.

The proposed bill has an effective date of July 1, 2016. The DRA would have to create a new M&R Tax return form and update IT systems to process the form in accordance with the proposed legislation. It is unlikely that the DRA will have sufficient time to complete these form and system changes for the July 1, 2016 effective date.